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FM AMCONSUL SHANGHAI
TO RUEHC/SECSTATE WASHDC 7264
INFO RUEHBJ/AMEMBASSY BEIJING 2217
RUEHCN/AMCONSUL CHENGDU 1487
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHGZ/AMCONSUL GUANGZHOU 1458
RUEHHK/AMCONSUL HONG KONG 1643
RHEHAAA/NSC WASHINGTON DC
RUEHSH/AMCONSUL SHENYANG 1479
RUEHGP/AMEMBASSY SINGAPORE 0180
RUEHIN/AIT TAIPEI 1281
RUEHGH/AMCONSUL SHANGHAI 7856

UNCLAS SHANGHAI 000451

SENSITIVE
SIPDIS

TREASURY FOR OASIA-DOHNER, HAARSAGER, WINSHIP, YANG, CUSHMAN
USDOC FOR ITA DAS KASOFF, MELCHER, OCEA

E.O. 12958: N/A

TAGS: [CH](#) [ECON](#) [EFIN](#) [PREL](#)

SUBJECT: REGULATOR SUPPORTING DOMESTIC INSURANCE FIRMS

REF: SHANGHAI 419, SHANGHAI 402, SHANGHAI 399

¶1. (SBU) Summary. American International Group (AIG) is coming under additional scrutiny from the China Insurance Regulatory Commission as AIG prepares to possibly spin off parts of its Asian insurance operations. CIRC appears to be mixing its role as a regulator of China-based insurance companies with intentions to support domestic Chinese insurers. While AIG has made several accommodations for CIRC's daily reporting requirements, these requirements continue to be burdensome. End summary.

Regulator Supporting Chinese Firms to Purchase AIG Assets

¶2. (SBU) CIRC appears to have a conflict of interest in using the information it gains from its current unprecedented access to AIG's books, a top AIG official in Shanghai suggests. CIRC probably is passing the information on to domestic Chinese insurers as it offers them support for purchasing business units AIG is considering selling, said the AIG official. CIRC officials at a recent meeting in Beijing with AIG China representatives were irritated that AIG was moving ahead with initial planning for spinning off business units before notifying CIRC, and quickly involved them in a telephone conference call with CIRC Chairman Wu Dingfu, said the AIG official.

¶3. (SBU) CIRC officials are particularly interested in AIG's plan announced in early October to sell a minority stake in the Asia operations of its American Insurance Association (AIA) life insurance business, said the AIG official. (Note: The holding company is publicly listed in Hong Kong, and has branches throughout Asia. There are three branches and five sub-branches in China. End note.) AIG is looking for a strategic minority investor in the Hong Kong parent, said the AIG official, with potential partners in China including China Life, China Investment Corporation and Ping An Insurance. CIRC recently told a meeting of Chinese insurance companies that it supports China Life's bid, said the AIG official.

¶4. (SBU) Separately, CIRC is supporting People's Insurance Company of China (PICC) to repurchase the 9.9% stake AIG took in PICC in 2003, said the AIG official. AIG was obligated to hold the stake for a five-year lockup period that expires next month.

CIRC Continues Heavy Oversight of AIG

15. (SBU) CIRC still requires AIG to provide daily prior notification of its cash flow out of China, according to the AIG official, causing a substantial compliance burden. (See reftels.) The Beijing representative visits CIRC headquarters as much as several times a day, said the AIG official, and several staff are dedicated to meeting the compliance requirements. AIG is allowed to make payments up to RMB1 million to non-AIG affiliated overseas entities without pre-approval by CIRC, but any payments over the RMB1-million limit must be pre-approved by CIRC, said the AIG official. To date, AIG has received one such approval, and a second request is still being reviewed by CIRC. The AIG official said that CIRC has asked AIG to stop all payments to AIG affiliates in the United States regardless of the amount. AIG has proposed to CIRC that reserve funds be transferred from U.S. AIG affiliates to China to be used for possible claims payments overseas, and CIRC is currently reviewing the proposal, said the AIG official.

Comment

16. (SBU) That CIRC would coordinate closely with domestic Chinese insurance firms is no surprise, but the situation here appears to take this a step farther, with CIRC actively eliciting information from AIG that would be helpful to AIG's Chinese competitors in acquiring parts of AIG's business. We have not corroborated the information provided by AIG with other insurance industry contacts.

CAMP